



## BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

### Opinions of the Courts Below.

The opinion of the District Court is not reported but is reproduced in the record at page 4.

The opinion of the Circuit Court of Appeals is not yet reported, but is reproduced in the record at page 18.

### Jurisdiction.

The grounds for jurisdiction are:

1. The date of the judgment to be reviewed is September 1, 1943.

2. The judgment was rendered in a Civil Action brought under the Declaratory Judgment statute (Section 274-D of the Judicial Code; 28 U. S. C. A. 400) for an adjudication of the issues of validity and infringement of Letters Patent of invention.

3. The statute under which jurisdiction is invoked is Section 240(a) of the Judicial Code, 28 U. S. C. A. 347, as amended by the Act of February 13, 1925.

4. Cases believed to sustain the jurisdiction are:

*Kessler v. Eldred*, 206 U. S. 285;

*Rubber Tire Wheel Co. v. Goodyear Tire & Rubber Co.*, 232 U. S. 413;

*Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227.

### Statement.

The facts are sufficiently stated in the petition.

### **Specification of Errors.**

The error which petitioner will urge if the writ of certiorari is granted, is that the Third Circuit Court of Appeals erred in holding that the prosecution of a later brought patent infringement suit against a customer in a jurisdiction foreign to both the patent owner and the manufacturer should not be restrained pending adjudication of the same issues, involving the same patents, in an earlier filed declaratory judgment suit brought by the manufacturer against the patent owner in the jurisdiction of the patent owner's domicile.

### **Summary of Argument.**

The points of argument follow the reasons relied upon for the grant of a writ of certiorari and are stated on pages 5 and 6 of this petition as well as in the index hereto. For the sake of brevity they are omitted at this point.

## **ARGUMENT.**

### **POINT I.**

**The Court of Appeals has decided an important question of Federal law in a manner which is in direct conflict with the principles announced by other Circuit Courts of Appeals which have had occasion to pass on the questions here presented.**

It has long been the practice of powerful patent owners to terrorize their competitors and, indeed, to paralyze and destroy competing businesses by threats of patent infringement suit sent to the competitor's customers. This abuse

of the patent privilege by misusing patents as weapons of business aggression has been judicially characterized as a "racket" (*Lances v. Letz*, 115 F. (2d) 916, C. C. A. 2d). Where necessary, patent owners have even gone to the extreme of filing a multiplicity of suits against a large number of customers of a competitor for improper abusive and coercive purposes (*Hazeltine v. Atwater Kent*, 34 F. (2d) 50). So vicious was this practice and so widespread and destructively successful had it become that it became a matter of public discussion,\* and occasioned proposed legislation requiring a patent owner to secure an adjudication of his patent in litigation with the manufacturer of an alleged infringing product as a condition precedent to litigation with the manufacturer's customers.†

Prior to the Declaratory Judgment statute manufacturers were largely helpless against these terroristic tactics. Only rarely was a large and powerful patent owner put to the necessity of subjecting his usually weak or worthless

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\* The final report and recommendations of the Temporary National Economic Committee on the Investigation of Concentration of Economic Power provided, under the title "Legislation Changes in Anti-Trust Laws":

"1. Patent Laws. (d) *Limitation on suits for infringement* (approved by the committee without objection). In order to prevent the use of litigation as a weapon of business aggression rather than as an instrument for adjudicating honest disputes, we recommend legislation which will provide that no action, based upon a charge of infringement of any patent, whether for damages, for an injunction, or for any other relief shall be permitted against any licensee under a patent or against any purchaser or licensee or any article unless the plaintiff has previously secured a judgment against the grantor of the license or the manufacturer of the article for infringement in connection with the granting of such license or the sale of such article."

† See Section 8 of Bill S. 2491 proposed by Senators O'Mahoney, Bone and LaFollette and introduced in the Senate on April 28 (Legislation day March 30, 1942) in the 2d Session of the 77th Congress.

patent rights to judicial scrutiny. The mere threat of expensive, inconvenient and annoying litigation, and the cloud of asserted illegality placed on the manufacturer's product, usually was sufficient to create a disastrous sales resistance, or to effectively close the substantial sales outlets to the manufacturer for his products. Thus, honest manufacturers were placed and were maintained at the mercy of unscrupulous competitive patent owners without opportunity for the relief of an adjudication of patent invalidity or non-infringement unless and until infringement suit was instituted when and where the whim of the patent owner should dictate.

With the enactment of the Declaratory Judgment statute, however, the picture changed, and the honest manufacturer for the first time was afforded the right and the means to secure a prompt adjudication of the merits of any patent claim asserted against his products, which right and means, immediately availed of by manufacturers whose products were charged to constitute patent infringement, have received extensive and uniform judicial approval. (*Sola v. Jefferson*, 87 L. Ed. Ad. Op. 150; *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F. (2d) 105, C. C. A. 6; *Milwaukee Gas Specialty Co. v. Mercoid*, 104 F. (2d) 589, C. C. A. 7; *Leach v. Ross*, 104 F. (2d) 88, C. C. A. 2; *U. S. G. & P. E. Corp. v. Hanson*, 104 F. (2d) 856, C. C. A. 4; *Creamery Package Co. v. Cherry-Burrell*, 115 F. (2d) 980, C. C. A. 3, cert. denied 312 U. S. 709; *Lances v. Letz*, 115 F. (2d) 916, C. C. A. 2; *Tremond v. Sherring Corp.*, 122 F. (2d) 702, C. C. A. 3; *Crosley v. Hazeltine*, 122 F. (2d) 925, C. C. A. 3, certiorari denied 315 U. S. 816; *Alfred Hofmann v. Knitting Machines*, 123 F. (2d) 458, C. C. A. 3; *Triangle v. National*, 125 F. (2d) 1008, C. C. A. 3, cert. denied 316 U. S. 676; *Penn Electric Switch Co. v. United States Gage Co.*, 129 F. (2d) 166, C. C. A. 7, cert. denied 317 U. S. 675; *Crosley v. Westinghouse*, 130 F. (2d) 474, C. C. A. 3, cert. denied 317 U. S.

681.) Indeed, the Court of Appeals for the Second Circuit, in *Lances v. Letz, supra*, took occasion to quote with approval Professor Borchard's comment upon "the most beneficial effect" of the Declaratory Judgment statute "in curing what had become a racket" in the abuse of the patent privilege (115 F. (2d) 916, at p. 917).

As would be expected, unprincipled patent owners immediately launched upon procedure designed to evade the statute, which procedure consisted of instituting patent infringement suit against the manufacturer, in a different jurisdiction, *after* the declaratory judgment action had been started, and then, because of the then pendency of the infringement suit, seek a dismissal of the declaratory judgment action. Of course, if the declaratory judgment case could be dismissed, the patent owner could proceed or not proceed with the infringement suit as he determined—and when he determined—holding the pendency of the suit *in terrorem* over the heads of the manufacturer and his customers in the meantime, in the same old racketeering fashion.\* However, this scheme was promptly and uniformly defeated, the Courts consistently holding that the pendency of the subsequently filed infringement suit formed no basis for the dismissal of the declaratory judgment action and afforded no means for avoiding an adjudication in that action. (*E. W. Bliss Co. v. Cold Metal Process Co., supra*, C. C. A. 6; *Milwaukee Gas Specialty Co. v. Mercoid, supra*, C. C. A. 7; *Creamery Package Co. v. Cherry-Burrell, supra*, C. C. A. 3; *Triangle v. National, supra*, C. C. A. 3; *Crosley v. Westinghouse, supra*, C. C. A. 3.)

In addition, when requested so to do, the Courts have uniformly enjoined the prosecution of the subsequently

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\* In *Matter of Skinner and Eddy Corp.*, 265 U. S. 86, 92 this Court, speaking through Mr. Chief Justice TAFT, held that a plaintiff in an equity action had an "absolute" right to discontinue or dismiss his suit at any stage of the proceedings prior to verdict or judgment.

instituted patent infringement suit against the manufacturer until after an adjudication had been had in the declaratory judgment action first instituted. (*Milwaukee Gas Specialty Co. v. Mercoid, supra*; *Crosley v. Hazeltine, supra*; *Triangle v. National, supra*; *Crosley v. Westinghouse, supra*.)

The reasons for this rule, given in one aspect or another by all of the Courts which had occasion to adopt it, are tersely stated, for example, by the Court of Appeals below in *Crosley v. Hazeltine, supra*, where it said (122 F. (2d) 925, at p. 930):

“It is of obvious importance to all the litigants to have a single determination of their controversy, rather than several decisions which if they conflict may require separate appeals to different circuit courts of appeals. \* \* \* The party who first brings a controversy into a court of competent jurisdiction for adjudication should, so far as our dual system permits, be free from the vexation of subsequent litigation over the same subject matter. The economic waste involved in duplicating litigation is obvious. Equally important is its adverse effect upon the prompt and efficient administration of justice. In view of the constant increase in judicial business in the federal courts and the continual necessity of adding to the number of judges, at the expense of the taxpayers, public policy requires us to seek actively to avoid the waste of judicial time and energy. Courts already heavily burdened with litigation with which they must of necessity deal should therefore not be called upon to duplicate each other’s work in cases involving the same issues and the same parties.”

“What has been said applies, we think, with especial force to patent suits, such as the one before us, brought under the Declaratory Judgment Act, 28 U. S. C. § 400. The act enables the challenger of an alleged patent right to have the right adjudicated without having to take the risk of continuing his infringement pending action by the patent owner. In

the declaratory judgment action the patent owner may counterclaim for infringement. Civil Procedure Rule 13(a), 28 U. S. C. A. following section 723 c. The intent of the Declaratory Judgment Act is to enable an alleged infringer to avoid a multiplicity of suits by the patent owner. When the district court of the domicile of a patent owner has been asked by an infringer to determine by declaratory judgment the issues of the patent's validity and infringement, it would neutralize the beneficial effect of the Declaratory Judgment Act as well as impose an unwarranted burden upon the federal judiciary, to permit the patent owner thereafter to prosecute infringement suits in other district courts against the same infringer. It follows that in the case before us the defendant should not be permitted to require the district court for the Southern District of Ohio to conduct and the plaintiff to defend nine separate trials to determine the validity of fifteen patents and their alleged infringement by the plaintiff, when the jurisdiction of the district court of Delaware has already been invoked to determine the validity and infringement of all of these patents."

The present case is another attempt by a patent owner, which has used its patents for the purpose of attempted intimidation, to circumvent the beneficial remedy afforded by the Declaratory Judgment statute to a manufacturer (petitioner) as a result of respondent's challenging the legality of the manufacturer's products.

Here, although petitioner was and for many years had been well known to respondent and the industry as a responsible manufacturer, respondent initiated the present controversy by a charge of infringement by petitioner's products addressed to petitioner's two largest customers. The obvious and only purpose of so doing, under such circumstances, was to intimidate those customers, cause them to cease being petitioner's customers and possibly become

respondent's customers, and to harass petitioner. Petitioner immediately filed the present declaratory judgment action, thereby affording respondent the opportunity—indeed putting respondent to the *compulsion*—of counterclaiming for patent infringement under Rule 13(a) of the Rules of Civil Procedure.

Thus, respondent was afforded an opportunity for a complete and *prompt* adjudication of the patent rights which it asserted if respondent was sincere in such assertion.\* However, respondent was not sincere in the assertion of its patent rights. Instead of joining issue, answering and presenting for adjudication in this action its counterclaim of patent infringement—and such an adjudication is the most and all that respondent was entitled to or assertedly sought—respondent (on February 3, 1941) filed the infringement suit in Michigan against petitioner and its customer, Sears, Roebuck & Company, and on the following day (February 4, 1941) moved in this case for a dismissal of the present declaratory judgment action by summary judgment. Even after the denial of summary judgment (38 F. Supp. 533) respondent, on July 13, 1941, brought a motion to dismiss the declaratory judgment action or stay further proceedings therein *because of the pendency of the infringement suit in Michigan*. By these tactics respondent succeeded in avoiding filing its answer and compulsory counterclaim in this cause until June 28, 1943—*nearly 2½ years after the complaint was filed*—while at the same time endeavoring to press the trial of the patent infringement case in Michigan.

Respondent now has made of record in the case, by stipulation and statement of Counsel in open court, that the only evidence of infringement which will be offered in the

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\* Rule 57 of the Rules of Civil Procedure provides:

"The court may order a speedy hearing of an action for a declaratory judgment and may advance it on the calendar."

trial on the merits in the Michigan case will be the sales by Sears, Roebuck & Company of petitioner's products. From this it will be seen that the only issues that are to be or can be raised at the trial of the Michigan case are (1) the validity of respondent's patents and (2) the infringement thereof by petitioner's products. *But these are precisely and exclusively the issues raised in the present declaratory judgment action.*

Therefore, there is neither reason nor excuse for permitting two (and possibly many more) such litigations to be simultaneously prosecuted in various District Courts of the Federal judicial system. On the other hand, there are many reasons, the principal ones of which uniformly have formed the basis upon which the Courts, in the cases above cited, have rendered their decisions in declaratory judgment actions involving patent rights, why it should not be permitted.

It will be seen, therefore, that the decision of the Court of Appeals in the present case is in direct conflict with the fundamental principles underlying all of the decisions of all the Circuit Courts of Appeals that have had occasion to pass upon the questions here presented, which fact warrants a review of this cause by this Court.

## POINT II.

**The Court of Appeals by its present decision has completely nullified the salutary effect of the Declaratory Judgment statute in patent cases in curing what has been judicially characterized as a "racket" in the abuse of the patent privilege.**

The inevitable effect of the decision below is that powerful patent owners are permitted—even invited—to terrorize

their manufacturing competitors with a multiplicity of suits against the manufacturer's customers. The salutary effect of the Declaratory Judgment statute in curing the patent "racket" of widespread threats of litigation against a manufacturer's customers is thereby completely nullified. The manufacturer who has been harassed by *threats* of litigation may not now seek to face his persecutor without being subjected to even a greater harassment by *actual* litigation against his customers in distant and widely scattered jurisdictions. Under these circumstances powerful patent owners with impunity may revert to their old practice of multiple infringement suits on patents of doubtful validity, and the manufacturer is faced with ruin regardless of what action he may take. He must lose his business through the fears of his customers because of such suits or he must lose his business because of the losses occasioned by the great expense incident to defending a multiplicity of suits in remote and widely scattered places.

If the decision of the Court below is not corrected a manufacturer, by filing a declaratory judgment suit, may not bring his controversy into Court and have it adjudicated expeditiously in a single trial. To the contrary, he must continue simultaneously to defend as many suits at as many different places as the patent owner may elect to bring against his customers (Cf. *Caterpillar Traction Co. v. Galion Iron Works & Mfg. Co.*, 30 F. Supp. 111).

Thus, a patent indeed is allowed to continue as a potent weapon in unscrupulous hands for business aggression. The decision of the Court of Appeals below in effect has sanctioned its use as such.

The propriety of and necessity for compelling a patent owner to first try his case against the manufacturer of an alleged infringing article has long been recognized as an equitable principle (*National Cash Register Co. v. Boston*

*Cash Indicator & Recorder Co.*, 41 F. 51; *Ellis v. Stowell*, 16 F. 783, 787; *Marconi Wireless Tele. Co. v. Kilbourne & Clark*, 235 F. 719, 722; *Maytag Co. v. Meadows Manufacturing Co.*, 35 F. (2d) 403, 410), the application of which, however, was solely a matter of judicial discretion that might not be exercised (*Kryptok Co. v. Stead Lens Co.*, 190 F. 767; *Haseltine v. Atwater Kent*, 34 F. (2d) 50).

The Declaratory Judgment statute, under the interpretation and application thereof by the Courts, has made prompt adjudication of asserted patent claims by a patent owner against a manufacturer, coupled with restraint of the patent owner with respect to unnecessary multiplication of litigation, a matter of *right*. Only in this way could or did the Declaratory Judgment statute have "the most beneficial effect" of curing "what had become a racket" in the abuse of the patent privilege. The decision of the Court of Appeals below in the present case nullifies all that has been accomplished in patent cases under the statute. The "racket" again is given vitality and life and is allowed to be practiced unhampered. Patent owners may continue their harassment by belatedly instituted infringement suits against the customers of manufacturers even though promptly subjected to Declaratory Judgment action and, by procedural jockeying such as here has been indulged in, trial of the Declaratory Judgment action may be delayed for years while the manufacturer's customers are subjected to the pressure of prosecution of patent infringement litigation in widely scattered jurisdictions far distant from the domicile of the manufacturer who is morally bound to defend them.

That any such result is directly opposed to the intent of the Declaratory Judgment statute is believed to be not only evident but also to have been uniformly recognized by the Courts that have had occasion to consider the matter.

For example, the statement was made by the Court in the *Crosley* case (*ante*, p. 13) that:

“The intent of the Declaratory Judgment Act is to enable an alleged infringer to avoid a multiplicity of suits by the patent owner.”

This terse statement of the uniformly accepted understanding of the intent of the Declaratory Judgment statute crystallizes the fact that the decision of the Court below which permits the patent owner to sue one customer of petitioner—and logically, as many *more* as the patent owner may elect—for alleged infringement of the *same* patents by the *identical* products, sanctions and even invites a multiplicity of suits thereby completely defeating the intent of the statute.

Again, the Courts have said, for example in the *Crosley* case (*ante*, p. 13):

“When the District Court of the domicile of a patent owner has been asked by an infringer to determine by declaratory judgment the issues of the patent’s validity and infringement, it would neutralize the beneficial effect of the Declaratory Judgment Act as well as impose an unwarranted burden on the Federal Judiciary to permit the patent owner to prosecute infringement suits in other District Courts against the same infringer.”

In the present case, the Michigan suit by respondent is not against the same alleged *infringer* (the manufacturer) that is charged with infringement by the counterclaim in the present declaratory judgment action. But it is against the same *infringement*, viz: the manufacturer’s *identical* products. No proper distinction can be drawn between the two situations. The recited vices of *neutralizing the beneficial effect of the Declaratory Judgment Act* and of *imposition of unwarranted burden upon the Federal Judiciary* are present in both cases because the issues are identical,

namely, the validity of respondent's patents and the infringement thereof by petitioner's products.

Therefore, it is believed that no such nullification of the beneficial effect of the Declaratory Judgment statute should be sanctioned, and that this Court should review the present case to prevent its being sanctioned, as it is, by the decision of the Court of Appeals below.

### POINT III.

**The Court of Appeals has decided an important question of Federal procedure which has not heretofore been passed upon by this Court, but which is of great public importance because it constitutes a precedent which will permit a multiplicity of expensive and unnecessary actions.**

From what has been said before it will be apparent that respondent has been permitted by the Court of Appeals below to continue the prosecution of its Michigan suit against one of petitioner's customers where the only issues there involved are *validity of respondent's patents and the infringement thereof by petitioner's products*, which issues are exclusively the *identical* issues raised by the present declaratory judgment suit which was the first to be instituted. In view of this identity of subject matter and issues it is apparent that the Michigan suit was wholly unnecessary and unwarranted. Consequently, the only reason why the Michigan suit was instituted was to evade the beneficial relief of the Declaratory Judgment statute to the manufacturer whose product was charged to infringe, or to continue the reprehensible harassment of that manufacturer by means of continued attack upon its customer.

If, under the circumstances in this case, it is proper for respondent to continue the prosecution of the Michigan case against *one* customer of petitioner, it is equally as proper for respondent to institute as many additional similar suits against as many other customers of petitioner as respondent arbitrarily determines.

Thus, the patent "racket" is accorded full sway and added momentum with the vicious consequence of a multiplicity of harassing, expensive actions, involving identical issues, which not only are unwarranted by the factual situation, but are wholly opposed to elementary principles of jurisprudence.

It is believed to be unnecessary, in view of the foregoing considerations, to further stress how important it is to the public, as well as to the orderly administration of the Declaratory Judgment statute in patent causes, to have this Court consider and pass upon the questions here presented before the decision of the Court of Appeals below is allowed to be established as a precedent.

#### POINT IV.

**The Court of Appeals has decided an important question of Federal law in a manner which is believed to be untenable in view of the principles announced by this Court in the case of *Kessler v. Eldred*, 206 U. S. 285.**

In the *Kessler* case this Court held that where a patent has been adjudicated not to be infringed by a particular product in a suit between the patent owner and the manufacturer of the product, that same product, and all products like it produced by that manufacturer, are forever freed from the charge of infringement of the patent regardless

of where they are found or by whom owned. Accordingly, this Court enjoined the prosecution of a subsequent suit in a different jurisdiction brought by the patent owner against one of the manufacturer's customers.

The doctrine of that case was based upon the consideration that despite the fact the patent grant vested in its owner the exclusive severable rights to make, to use and to sell, thereby enabling the patent owner to choose which violation of the exclusive privilege should form the basis of an infringement suit, nevertheless when issues of validity and infringement have been presented for adjudication in an action between the patent owner and the primary source of infringement—the manufacturer of the challenged product—there is neither necessity nor excuse for re-litigating the same issues in any other jurisdiction.

Although in that case an adjudication of non-infringement had been secured by the manufacturer before the suit by the patent owner against the manufacturer's dealer was instituted, the underlying principles upon which the decision was based are equally as applicable to the facts in the present case where the issues of validity and infringement raised by petitioner's declaratory judgment suit were only pending in Delaware when the suit against petitioner's customer in Michigan was filed.

Respondent argued in the Court of Appeals below, and that Court implied in its opinion, the review of which is here sought, that inasmuch as respondent, in a possible accounting proceeding in the Michigan case, might recover the profits from infringing sales made by the customer, that fact made the relief sought by respondent in the Michigan cause *different* from that sought by its counterclaim in the present action inasmuch as in the present action only the profits of petitioner could be recovered. In such implication the Court of Appeals below erroneously overlooked or

ignored the fact that under its counterclaim in the present case respondent asks for relief in the following language:

"Wherefore defendant demands a preliminary and final injunction against further infringement by plaintiff and those controlled by plaintiff, *an accounting for profits and damages*, and an assessment of costs against plaintiff."

Thus, because in the declaratory judgment action with petitioner, the manufacturer of the infringing products, respondent seeks *both profits and damages*, respondent is barred from recovery in suits for infringement by users or resellers of petitioner's products (*Walker on Patents*, Deller Edition 1937, Volume 2, p. 1496; *Stebler v. Riverside Heights Orange Growers Association*, 214 F. 550, C. C. A. 9; *Sherman Clay & Co. v. Searchlight Horn Co.*, 225 F. 497).

Even if respondent was entitled to recover from both petitioner (the manufacturer) and Sears, Roebuck & Company (the reselling customer) that fact, if it were a fact, would be no justification for permitting respondent to nullify the salutary effect of the Declaratory Judgment statute or of the doctrine of the *Kessler* case.

Petitioner is not here seeking a *dismissal* of respondent's Michigan suit. The injunction granted petitioner by the District Court would in no way affect respondent's right to maintain the Michigan suit or to have a full recovery therein if respondent is entitled to it. Petitioner here seeks only to avoid unnecessary and unwarranted multiplication of litigation, with its incidents of unnecessary burden on the Courts as well as the unnecessary burden on, expense to and harassment of petitioner and its customers. Petitioner seeks this pending the time the doctrine of *Kessler v. Eldred* shall be *directly* applicable and require dismissal of the Michigan suit upon adjudication in this

Declaratory Judgment action of invalidity of the patents or non-infringement thereof.

It is believed, therefore, that the decision of the Court below in the present case is so inconsistent with the principles announced by this Court in *Kessler v. Eldred* as to be untenable, and therefore warrants a review and correction by this Court.

**Conclusion.**

***Wherefore petitioner earnestly prays that the petition for writ of certiorari be granted, the case be reviewed, the judgment of the Court of Appeals for the Third Circuit be reversed, and the judgment of Judge Kirkpatrick sitting in the District Court of Delaware enjoining respondent from prosecuting the Michigan case until after adjudication is had in the present cause, be allowed to stand.***

Respectfully submitted,

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Dated: New York, N. Y.,  
September 28, 1943.

[3096]